



## *Public Utility Commission of Texas*

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### **Prepared Testimony to Senate Business and Commerce on Electric Industry**

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My name is DeAnn Walker and I am the chairman of the Public Utility Commission of Texas. I want to thank Chairman Hancock for inviting me to testify today on behalf of the Commission. The Commission takes the projections related to the electric market for this summer very seriously. I personally have held multiple meetings with various segments of the electric market and ERCOT as well as many additional meetings with individuals from companies and elected officials.

The region of Texas in ERCOT has a world class competitive retail and wholesale electric market. The market established in ERCOT has enabled Texas consumers to benefit from low-cost electric prices for many years. In fact, data shows that in 2016 the ERCOT market has the lowest commercial and industrial electric prices in the ten largest states.

Over the past few years, the ERCOT wholesale power market has enjoyed a surplus of generation. This surplus, in conjunction with low gas prices, has enabled the low electric prices experienced by consumers. However, the low wholesale electric prices as well as other market forces, such as the installation of significant amounts of renewable energy that is federally subsidized, have also impacted the revenues collected by the owners of the generation units. Due to such impacts, the economics to operate more costly generation units, such as coal, have not supported the continued operation of those units.

Therefore, in the fall of 2017, generation owners decided to retire over 7,000 megawatts of capacity. This response is expected in the energy-only market that was established in ERCOT. At the same time, the robust Texas economy, a growing population, and predictions for hotter weather than average are driving expectations for increased power needs across the ERCOT region. The retirements and the increased demand for electricity have impacted the reserve margins calculated by ERCOT to be lower than have been experienced in recent years.

Based on classic economic principles, it is anticipated for the coming summer that there will be higher wholesale electric prices due to the fact that there is lower supply of generation. These higher prices will in turn signal additional investment in generation resources and will also likely forestall additional retirements due to economic decisions. Retail electric providers and



consumers have a wide variety of product offerings that can be used to protect against the anticipated increases in prices. While the supply of generation will clearly be tighter than in the past few years, it is anticipated that ERCOT has sufficient tools to address the reliability of the ERCOT system.

Several entities have recommended modifications to the existing market in order to address perceived short-comings. Recently, the Commission implemented a change to remove the reliability unit commitment capacity from the ORDC calculation of on-line reserves, which will be implemented in June. The Commission is considering all available information to determine if any additional changes to the market design are necessary. It is my intention to consider all relevant information in an informed and measured manner to determine what actions are best for the citizens of Texas. The Commission must do so with a thoughtful balance of the interest of the market participants as well as the ratepayers.